

SEC. 1805. NONRECOGNITION TREATMENT FOR CERTAIN TRANSFERS BY COMMON TRUST FUNDS TO REGULATED INVESTMENT COMPANIES.

(a) GENERAL RULE.—Section 584 (relating to common trust funds) is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) NONRECOGNITION TREATMENT FOR CERTAIN TRANSFERS TO REGULATED INVESTMENT COMPANIES.—

“(1) IN GENERAL.—If—

“(A) a common trust fund transfers substantially all of its assets to one or more regulated investment companies in exchange solely for stock in the company or companies to which such assets are so transferred, and

“(B) such stock is distributed by such common trust fund to participants in such common trust fund in exchange solely for their interests in such common trust fund, no gain or loss shall be recognized by such common trust fund by reason of such transfer or distribution, and no gain or loss shall be recognized by any participant in such common trust fund by reason of such exchange.

“(2) BASIS RULES.—

“(A) REGULATED INVESTMENT COMPANY.—The basis of any asset received by a regulated investment company in a transfer referred to in paragraph (1)(A) shall be the same as it would be in the hands of the common trust fund.

“(B) PARTICIPANTS.—The basis of the stock which is received in an exchange referred to in paragraph (1)(B) shall be the same as that of the property exchanged. If stock in more than one regulated investment company is received in such exchange, the basis determined under the preceding sentence shall be allocated among the stock in each such company on the basis of respective fair market values.

“(3) TREATMENT OF ASSUMPTIONS OF LIABILITY.—

“(A) IN GENERAL.—In determining whether the transfer referred to in paragraph (1)(A) is in exchange solely for

stock in one
or more
regulated
investment
companies,
the
assumption
by any such
company of a
liability of
the com-
mon trust
fund and the
fact that any
property
transferred
by the
common
trust fund is
subject to a
liability,
shall
be
disregarded.

"(B)

SPECIAL RULE
WHERE
ASSUMED
LIABILITIES
EXCEED
BASIS.

"(i)

GENERAL.
any transfer
referred to
in paragraph (1)
(A), the assumed
liabilities exceed
the
adjusted
adjusted bases
(in the hands of
the common
trust fund) of
the assets
transferred to
the regulated
investment
company or
company

"(I)

notwithstanding
paragraph (1), gain
shall
be recognized to the
common trust fund
on such
transfer in an
amount equal to
such excess.

"(II) the basis of
the assets received
by the
regulated
investment
company or
companies in
such transfer shall
be increased by the
amount
so recognized, and